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**REVIEW OF WHOLESALE
ELECTRIC MARKET DESIGN**

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**BEFORE THE
PUBLIC UTILITY
COMMISSION OF TEXAS**

BASF Corporation's Comments on ERCOT Market Redesign

BASF Corporation ("BASF") submits these comments in response to the Public Utility Commission of Texas's efforts in undertaking a redesign of the ERCOT wholesale market. BASF supports principles that will lead to a grid that is reliable, affordable, and sustainable, and that leads to solutions that are competitive and that allow customers like BASF to adopt a portfolio approach to electricity procurement. While BASF supports changes that would prevent similar devastation brought by the February 2021 winter storms and appreciates the need for expedient action in advance of the coming winter season, we encourage the Commission to consider undertaking a formal rulemaking process to evaluate larger wholesale changes to the ERCOT market. BASF additionally cautions the Commission from disrupting existing contractual agreements and causing significant business uncertainty that could lead to a competitive disadvantage in the state. We will, however, offer targeted suggestions as to how to best address the shortcomings of the current system going forward.

BASF is a diverse global company that manufactures products and conducts research and development in industries ranging from automotive, electronics, paints and coatings, pharmaceuticals, personal care hygiene, agricultural products, and petrochemicals, among a range of others. In Texas, BASF has manufacturing facilities located in Freeport, Bishop, Pasadena, Caldwell, and Houston, as well as an agriculture production and R&D site in Lubbock, and a large commercial office space in the Energy Corridor in Houston – all located within the ERCOT region. Additionally, we have two large manufacturing sites in Texas located outside of ERCOT (in MISO): one in Port Arthur and one in Beaumont. In total, BASF employs more than 2,000 Texas workers and a similar number of contractors. In Texas alone, we pay over \$20 million annually in property taxes, and the capital replacement value of our Texas assets amounts to the billions of dollars. While BASF has a large manufacturing presence in the state and is therefore a significant

consumer of electricity, our Freeport site also operates a cogeneration plant on site, so we also have the ability to serve as an electricity producer in ERCOT.

It is essential to both the overarching competitiveness of the state and for BASF to continue manufacturing essential products in Texas that the ERCOT market have the ability to provide reliable and competitively priced electricity, which is also produced sustainably. In 2018, BASF announced aggressive global sustainability goals, whereby the company aims to reduce our absolute CO₂ emissions by 25 percent by 2030, as well as achieve net zero CO₂ emissions by 2050. As part of our solution to achieving those goals in Texas, two of our manufacturing sites have entered into power purchase agreements (PPA's) that will bring wind and solar power to the production sites, which will ultimately amount to upwards of 90% of the sites' total purchased power. BASF is taking a holistic approach to address our carbon emissions reductions, and believes that maintaining a diverse electricity grid that incorporates low-carbon, low-cost power generation must be part of that solution. BASF recognizes the significant value of natural gas in the state and elsewhere, and prefers to use the molecule as a raw material rather than for power consumption.

BASF Recommendations

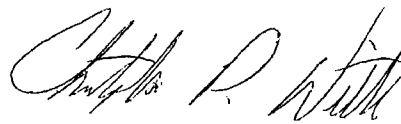
- As an initial guiding principle, BASF favors a portfolio approach for the electrical power supply in Texas. This means that the advantages, as well as shortcomings, of each generation source should be evenly and equally considered, with no preferential treatment applied to any single source.
- **ORDC Curve.** BASF recommends that the ORDC Curve be expanded in such a manner as to incent responsive generation over an expanded application range, including the expansion of the Minimum Contingency Level (MCL). The curve could be expanded between 2-to-3 times from its current range.
- **Ancillary Services**
 - It is BASF's position that renewable energy sources should not be eligible to receive ancillary fees or have ancillary fees applied to renewable energy output as these assets are not, and cannot, be subject to dispatch. BASF would suggest, however, that the

Commission take into consideration the current development in long-duration battery technology, which will, once progressed into the market, enable renewable generators to store and provide power on a dispatchable basis and could alter their ability to participate more fully and appropriately in the ancillary market.

- The current ancillary structure in the ERCOT market incents participation in the ancillary market as well as the response (e.g., turning assets on/off, increasing or decreasing output). While more renewable energy in the market will increase the need for response due to variability of renewable energy output, BASF remains skeptical as to how charging ancillary fees to renewable assets will in fact improve responsiveness. Our concern is that this will merely increase costs for reliable generators (coal, nuclear, and natural gas) as price competition pressure will decrease.
 - Additionally, BASF recommends that ancillary services (AS) must be valued appropriately by procuring them in a tech-neutral, transparent, and competitive market process. The Commission should provide the transparent data to develop an ancillary forward market that would allow participants to balance risk and certainty.
- **Electricity Pricing.** The price of electricity should not be below \$0, and BASF recommends that ERCOT adopt that as a price floor. Electricity has value, and should neither be given away nor should the price actually incentivize consumption, which are the two results that occur when the price becomes negative.

BASF appreciates the opportunity to provide comments to the Commission on these critical issues facing the state, and would welcome any questions or to discuss further.

Respectfully,



Christopher P. Witte
SVP, Freeport Site General Manager
BASF Corporation
602 Copper Road
Freeport, TX 77541